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Prospects for Foreign Trade in



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U.S. Foreign Agricultural Service
UNITED STATES DEPARTMENT OF AGRICULTURE
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PROSPECTS FOR FOREIGN TRADE IN TOBACCO

SUMMARY

U.S. exports of unmanufactured tobacco in calendar year 1959 were near those of 1958, when 482 million pounds moved abroad. Exports in 1960 also are likely to be close to those of 1959.

Rising world consumption of tobacco--especially cigarettes--however, has not brought about a gain in U. S. export trade. A gradual downward trend has occurred because (1) increased supplies are available in competing countries, (2) important markets continue the use of barriers to the free movement of tobacco in international trade, (3) prices for U. S. leaf, are relatively high particularly in low and medium grades, and (4) a number of important tobacco-consuming countries are aggressively trying to become self-sufficient.

The trend away from the United States as the world's largest source of leaf tobacco imports has been slowed, however, by the steadily rising world production of cigarettes and the sharply improved gold and dollar reserves position of most countries.

Despite these favorable factors assisting in the maintenance of the absolute level of exports, the U. S. proportion of world trade in unmanufactured tobacco is dropping slowly but steadily. In 1959 it was about 32 percent compared with 33 percent in 1958 and an average of 38 percent in 1950-54.

International tobacco trade in 1959 was at approximately the same level as in 1958, with Free World exports at about 1.5 billion pounds in both years. International trade has been increasing at a slower rate than world tobacco consumption because of stocks accumulation in previous years and larger availabilities from domestic crops.

Mainland China is becoming more important as a producer and exporter of flue-cured tobacco although to date most of its exports have moved to other Soviet Bloc countries and have provided little competition for U. S. leaf in free world markets. China is a factor to be watched closely, however, since with state control of production and marketing, "dumping" of its tobacco could occur with consequent disruption of present trade patterns.

Consumption of tobacco is rising in most countries of the world. Gains in cigarettes and to a lesser extent in cigars and cigarillos are more than offsetting declines in use of other tobacco products. Cigarette manufacture is gaining at a rate of almost 5 percent annually, with the world total output near 2 trillion pieces in 1958--up 25 percent from the 1951-55 average. The United States still easily leads the world in cigarette output but its proportion of the world total dropped to 24 percent in 1958 from an average of 26.5 percent in 1951-55.

World production of leaf tobacco in 1959 is estimated at about 8.5 billion pounds--up about 2 percent from 1958 but still below the record of 8.7 billion pounds produced in 1956.

Rapid increases in world tobacco production have occurred since the end of World War II. Most of the rise has been in foreign countries, with particularly important gains in those that compete with the United States in world trade.

The trend toward larger crops of light, mild cigarette tobaccos continues. Important world producers are devoting their major efforts to larger crops of these kinds of tobacco--especially flue-cured, oriental, and Burley. These are the tobaccos that are in increasing demand in world markets.

Foreign production of tobacco has been encouraged not only by measures undertaken by foreign governments, but also to some extent by the U. S. price-support and acreage control program. This program has stabilized to a considerable degree the prices for both U. S. and competitive growths. But even without this program considerable increases in production outside the United States would have occurred, particularly in British Commonwealth countries--Rhodesia, India, Canada--which enjoy tariff preference in the big United Kingdom market and in several other Commonwealth areas.

U. S. tobacco has long been recognized as possessing the quality characteristics most desired by importing countries. In recent years, however, the U. S. grower has tended to emphasize production volume at the expense of quality maintenance. Some less desirable varieties of tobacco have been produced here in large volume without the flavor and aroma usually associated with U. S. leaf. Certain cultural practices; including too-close planting, excessive use of fertilizers and irrigation, and application of certain chemicals in sucker control, also appear to have resulted in some drop in quality.

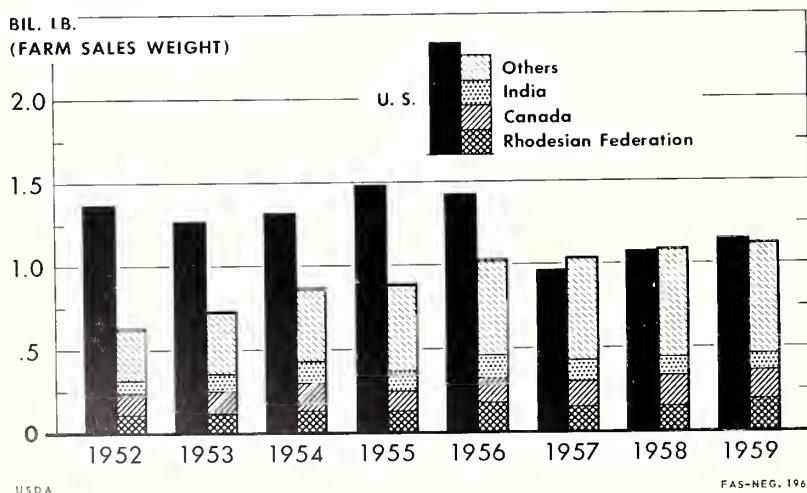
At the same time, more effective research, better varieties, and improved cultural practices and grading abroad have raised the quality of competitive growths. The outstanding advantage held for so long by the U. S. tobacco grower--the quality of his leaf--no longer distinguishes his product so clearly from other tobaccos.

Much of the world is not a free market for tobacco. There are economic and political alliances of countries which are major tobacco producing and importing areas. Continued emphasis is placed by some countries on imports of tobacco from areas which provide outlets for manufactured items. As a result of these policies, artificial barriers have been erected against leaf imports from the United States.

These barriers include "dollar" allocations, preferential tariffs, bilateral trading arrangements, mixing regulations favoring use of domestic leaf, and monopoly control of import trade. They often are discriminatory in their impact on U. S. tobacco and limit the ability of U. S. tobacco growers to compete on an equitable basis with other world producers in foreign trade.

Approximately 65 countries have increased significantly their import duties on tobacco or tobacco products or both within the past 3 years. These actions have encouraged domestic production of tobacco in some countries and have restricted consumer demand in nonproducing countries by making necessary higher retail prices. Tariff increases adopted by foreign countries contrast sharply with reductions in U. S. tariffs on tobacco and tobacco products since the end of World War II.

U. S. Still Producing Half Free World Flue-Cured Tobacco



On January 1, 1959, the tariff on tobacco moving from one country to another in the European Economic Community (Common Market) was reduced 10 percent. A further reduction of 10 percent is scheduled to go into effect on July 1, 1960. During a transitional period of 12-15 years, the internal tariff in the Common Market is scheduled to be reduced to zero, and that on tobacco from nonmember countries (including the U. S.) gradually to be raised to a level of 30 percent ad valorem. These developments already have had the effect of encouraging exports from Italy to other members of the Common Market. If the external tariff schedule is put into effect as planned, U. S. tobacco will suffer a marked disadvantage in competing for Common Market import trade with other nonmember exporting countries. U. S. tobacco generally is higher priced than competitive growths produced in India, Rhodesia, and Canada and will be assessed relatively higher tariffs.

It is also likely that in the near future Greece and Turkey, major tobacco exporters, will receive favored treatment in the member countries of the Common Market.

WORLD PRODUCTION

World tobacco production (including Soviet Bloc and Mainland China) in 1959 is placed at about 8.5 billion pounds--the fourth largest of record and 2 percent above 1958. Production in the United States--at 1,800 million pounds (November estimate) was up 4 percent from 1958, but was still the third smallest since 1943. U. S. yields per acre in 1959 (for all tobaccos combined) were below the record of 1958, but plantings were larger because some of the acreage placed under the Soil Bank Program in previous years was returned to production in 1959.

The larger U.S. 1959 crop, together with significant increases in Rhodesia-Nyasaland, India, Turkey, and Yugoslavia, more than offset decreases in Canada, Japan, and Greece.

Free World countries have made strong gains during the last decade in growing flue-cured tobacco--the most important kind in both world production and export trade. Reduced acreage allotments for U. S. flue-cured resulted in sharply lower production during the 1957-59 seasons compared with earlier years. The flue-cured crop in the United States was about equal to the combined flue-cured crops of the rest of the Free World in 1957-59. But for 1947-51 the U. S. share was 71 percent. In 1959, U. S. flue-cured production was 13 percent below the average for 1947-51; other Free World countries more than doubled their output during the same period, with production reaching 1.1 billion in 1959 compared with 0.5 billion in 1947-51.

Most of the increase since 1947-51 has occurred in the Federation of Rhodesia and Nyasaland, Canada, India, Brazil, the Republic of the Philippines, the Union of South Africa, and Italy. Outside the Free World, sharp gains have occurred in Mainland China and Poland. But these countries to date have not become important competitors of the United States in world markets.

Rhodesia-Nyasaland had a record crop of flue-cured in 1959--about 195 million pounds, up 25 percent from 1958 and more than twice as large as in 1947-51. Production in Canada, another major competitor, was about 25 percent larger than in 1947-51, although well below the record 1958 crop. India's crop also is up considerably.

Production of flue-cured in Commonwealth countries continues to be stimulated by the U. K. preferential tariff, equivalent to 21.5 U. S. cents per pound, guaranteed purchase arrangements between British manufacturers and Rhodesian growers, and the limit on the United Kingdom's purchases of "dollar" tobacco for home consumption to 61 percent of manufacturers' requirements.

This preferential system, together with the long-term purchase agreements, not only permits producing areas to increase their sales to other Commonwealth countries but also enables them to make larger exports outside the Commonwealth. Because of the

TABLE 1.--World production of tobacco, by kind, average 1947-51, annual 1952-59¹

Year	Flue-cured		Burley		Other light air-cured		
	Foreign	U. S.	Foreign	U. S.	Foreign	U. S.	
	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	
Average 1947-51.....	779	1,246	56	553	40	39	
1952.....	894	1,365	39	650	60	40	
1953.....	1,214	1,272	70	564	44	41	
1954.....	1,374	1,314	78	668	61	44	
1955.....	1,461	1,483	97	470	64	31	
1956.....	1,648	1,423	96	506	58	37	
1957.....	1,733	975	111	488	69	31	
1958.....	1,830	1,081	119	466	67	31	
1959.....	1,820	1,080	118	498	71	32	
	Fire-cured		Other		Total		Grand total
	Foreign	U. S.	Foreign	U. S.	Foreign	U. S.	
	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>	<i>Mil. lb.</i>
Average 1947-51.....	82	70	4,175	174	5,132	2,082	7,214
1952.....	63	58	3,938	143	4,994	2,256	7,250
1953.....	61	49	4,208	133	5,597	2,059	7,656
1954.....	53	62	4,332	156	5,898	2,244	8,142
1955.....	70	65	4,612	144	6,304	2,193	8,497
1956.....	80	71	4,620	139	6,502	2,176	8,678
1957.....	88	50	4,995	117	6,996	1,661	8,657
1958.....	98	43	4,504	115	6,618	1,736	8,354
1959.....	92	54	4,593	136	6,694	1,800	8,494

¹ Includes Soviet bloc and Mainland China.

preferential tariff, Commonwealth buyers pay much higher prices (grade for grade) for Commonwealth tobacco than they would if there were no tariff preferential. As a result, Commonwealth tobacco growers receive higher prices and incomes which in turn stimulate production.

World crops of oriental tobacco in both 1958 and 1959 were below the high level of 1957. Major producers of oriental leaf are Turkey, Greece, Yugoslavia, and Bulgaria. Light aromatic oriental tobaccos are sold mainly in Western Europe, where they compete with U. S. cigarette leaf, and in the United States itself. Production in Greece in 1958 and 1959 was below the record high reached in 1957. Turkey's crop, at about 280 million pounds in 1959, was a record. Yugoslavia's crop of oriental leaf in 1959 also was much larger than in 1958--nearly double the 1947-51 average--although below the record of 1957.

Burley tobacco is being produced in larger quantities outside the United States. Japan, Canada, Nyasaland, and Italy are having success in exporting considerably more Burley than a few years ago. Cuba is growing Burley, partly for export, partly for domestic use. Production of Burley outside the United States increased from an average of 56 million pounds in 1947-51 to 118 million in 1959, a gain of 110 percent. For the same periods U. S. Burley production dropped from 553 million to 497 million pounds.

WORLD EXPORTS

In 1959, Free World tobacco exports probably were a little above the 1.48 billion pounds exported in 1958. It is also likely that the U. S. share dropped again--from 33 percent in 1958 to an alltime low of 32 percent last year.

The United States has not been sharing in larger world exports although the absolute level of U. S. trade during the past 3 years compares favorably with the averages for 1947-51 and 1950-54. Consequently, the U. S. share of Free World tobacco export trade in those periods was considerably larger than in recent years--43 percent in 1947-51 and 38 percent in 1950-54.

U. S. quality has remained superior to that of competitive growths produced abroad (although the gap is being narrowed) but this has not prevented the decline in the U. S. share of export trade from continuing.

Larger quantities of cigarette tobaccos available for export in other major producing areas have intensified the competition for markets. These tobaccos generally are priced lower than similar U. S. tobaccos, especially in medium and low grades, and are in particular demand in markets where "price" is an especially important factor in the trade pattern. More and more cigarette leaf is being supplied to world markets by principal competitors--Rhodesia-Nyasaland, India, Canada, Greece, Turkey, Yugoslavia, and Italy.

The big increases in production of light cigarette tobaccos reflect the growing importance of these kinds of tobacco in world trade. Flue-cured, Burley, and Maryland now account for more than 90 percent of U. S. exports of unmanufactured tobacco compared with 78 percent just prior to World War II. About four-fifths of Free World exports in 1959 consisted of light cigarette tobaccos, including flue-cured, Burley, Maryland, and oriental.

In 1959 the Federation of Rhodesia-Nyasaland exported a record quantity of tobacco, primarily flue-cured. Tobacco exports from Canada, India, Turkey, Greece, and Yugoslavia were much larger than in earlier postwar years. Newcomers to the export field are entering the picture, especially in cigarette leaf. Thailand and the Philippines are exporting flue-cured tobacco. U. S. Burley is meeting increased competition from Canada, Japan, Italy, and Nyasaland whose combined exports of Burley in 1958 reached 18 million pounds--3 times the level of 1953.

U. S. Remains No. 1 Exporter Flue-Cured Tobacco but Share Declines

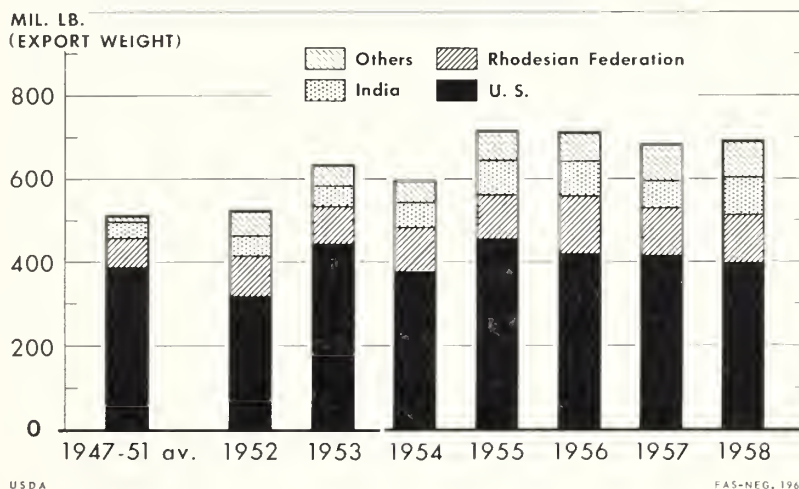


TABLE 2.--U. S. exports of unmanufactured tobacco; by type, averages 1947-51 and 1950-54, annual 1955-58

Type	Average	Average	1955	1956	1957	1958
	1947-51	1950-54				
	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>
Flue-cured.....	388.1	391.2	456.5	420.4	417.7	398.7
Burley.....	32.9	28.9	31.3	29.2	20.5	28.8
Kentucky-Tenn. fire-cured....	24.6	23.1	21.4	24.2	22.0	19.7
Virginia fire-cured ¹	6.0	4.7	4.4	4.4	5.3	4.6
Maryland.....	7.3	7.4	8.4	12.1	13.5	11.9
Green River.....	1.7	1.9	1.8	1.3	1.6	1.2
One Sucker.....	3.1	1.8	1.7	2.4	2.6	.9
Black Fat.....	4.7	4.0	5.3	4.6	4.5	4.9
Cigar Leaf:						
Wrapper.....	--	3.5	4.1	3.9	4.5	4.7
Binder.....	--	2.7	1.7	3.1	3.9	2.0
Filler.....	--	.6	.2	.8	.1	.6
Total cigar leaf.....	9.8	6.8	6.0	7.8	8.5	7.3
Perique.....	.1	.1	.1	.1	.1	.1
Trimnings, stems & scrap.....	8.1	3.8	3.3	3.9	4.7	4.2
Total.....	486.4	473.7	540.2	510.4	501.0	482.3

¹ Includes Virginia sun-cured.

TABLE 3.--Free World exports of unmanufactured tobacco; averages 1947-51 and 1950-54; annual 1955-58

[Export weight]

Country	Average	Average	1955	1956	1957	1958
	1947-51	1950-54				
	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>
United States.....	486	474	540	510	501	482
Federation of Rhodesia and Nyasaland.....	98	117	124	165	139	143
India.....	75	84	98	93	80	106
Canada.....	23	31	48	30	37	30
Greece.....	53	88	121	107	152	138
Turkey.....	124	133	132	134	195	147
Indonesia.....	16	30	28	25	31	49
Dominican Republic.....	35	30	29	30	26	25
Philippines.....	10	19	16	23	24	31
Brazil.....	68	65	60	67	62	66
Cuba.....	34	37	48	47	55	59
All others.....	115	143	154	181	181	205
Total.....	1,137	1,251	1,398	1,412	1,483	1,481
U. S. share.....	<i>Percent</i> 42.7	<i>Percent</i> 37.9	<i>Percent</i> 38.6	<i>Percent</i> 36.1	<i>Percent</i> 33.8	<i>Percent</i> 32.5

The shift away from the United States as a source of supply can best be emphasized by developments in Western Europe--the most important tobacco importing area.

Western Europe as a whole purchases about 70 percent of the Free World tobacco imports. It is easily the major market for U. S. tobacco, accounting for about three-fourths of total U. S. exports. Yet, in this all-important market the U. S. share in tobacco utilization has been moving steadily downward.

In 1958 the 16 countries of Western Europe used about 1,224 million pounds of tobacco compared with 985 million in 1950--a rise of 24 percent. But usings of U. S. tobacco were just about the same in 1958 as in 1950--360 million pounds. The U. S. share in Western Europe's overall factory utilization of tobacco was 37 percent in 1950. In 1958 it was less than 30 percent.

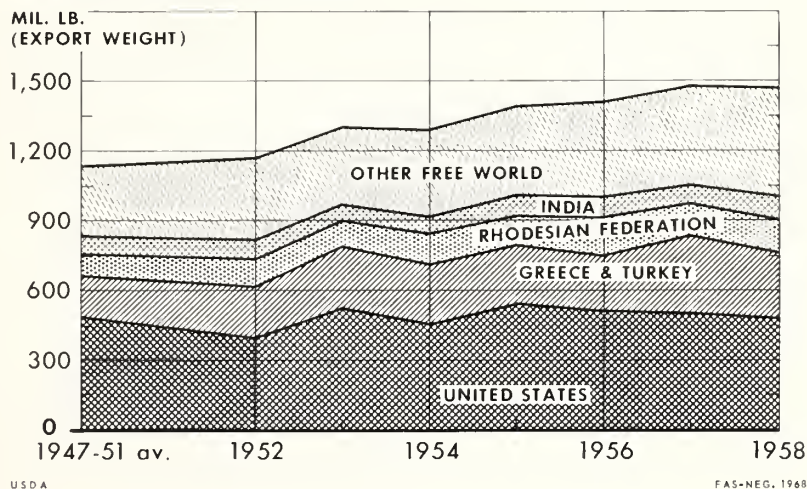
TABLE 4.--Estimated consumption of unmanufactured tobacco in West Europe¹ 1950-58

[Processing weight]

Year	Total	Domestic leaf	Imported leaf			U. S. share	
			Total	United States	Other	Total	Imported
	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Percent</i>	<i>Percent</i>
1950.....	985	247	738	360	378	36.5	48.8
1951.....	1,050	287	763	356	407	33.9	46.7
1952.....	1,032	282	750	345	405	33.4	46.0
1953.....	1,073	300	773	331	442	30.8	42.8
1954.....	1,131	315	816	335	481	29.6	41.1
1955.....	1,147	311	836	348	488	30.3	41.6
1956.....	1,162	301	861	358	503	30.8	41.6
1957.....	1,183	311	872	357	515	30.2	40.9
1958.....	1,224	316	908	360	548	29.4	39.6

¹ Excludes Greece and Yugoslavia.

U. S. Not Sharing in Larger World Tobacco Exports



During the same period the U. S. share in use of imported tobacco in the area fell from 49 percent to 40 percent. Increased use of non-U. S. tobacco has been accomplished by larger crops within the individual countries and by increased purchases from competitors, mainly Rhodesia-Nyasaland, India, Canada, Greece, and Turkey.

TRADE BARRIERS

The most important barriers in effect in major tobacco importing countries are these:

<u>Country</u>	<u>Code</u>	<u>Country</u>	<u>Code</u>
Austria.....	1, 6	Uruguay.....	1, 2
France	1, 2, 5, 6	Egypt	1, 2
Italy.....	1, 6	Philippines.....	2
West Germany	1, 3	India	2
Portugal	1, 2, 4, 6	Pakistan	2, 4
Spain.....	1, 2, 6	Japan	6
United Kingdom.....	2, 4, 5	Thailand	6
Finland.....	2	Australia	3, 4, 5
Argentina.....	2	New Zealand.....	2, 3

Code Key: 1. Bilateral trading arrangements.
 2. Import licensing, quotas, dollar allocations.
 3. Mixing regulations.
 4. Preferential tariffs.
 5. Guaranteed purchases.
 6. Monopoly.

Government decisions of many importing countries often determine the source of imports of tobacco. In other cases, particularly in the United Kingdom and Australia, manufacturer arrangements (with the approval of their governments)--in addition to the preferential tariffs--do much to direct imports to certain British Commonwealth areas. The typical case is one in which an importing country (usually industrial) buys tobacco from certain countries to which it is thus assured an increase in exports of industrial goods. Such a bilateral agreement may also result in more favorable pricing arrangements for tobacco, which stimulate both production and exports of tobacco even though the tobacco producing countries may not secure an increase in terms of real income in return (owing to increased costs of imported manufactured goods).

Import Duties

Foreign import duties on tobacco and tobacco products have long been high but many of these have recently been increased sharply. Between the end of 1957 and September 1959 some 65 countries and areas have increased the import duties on unmanufactured tobacco or tobacco products or both. In addition, 19 Free World areas have tobacco monopolies which control imports through means other than tariff.

Some countries have increased their duties primarily in order to increase government revenues; however, a large number have increased them in order to limit imports and stimulate their own production.

Many of the import duties on tobacco are the ad valorem type; increases in these rates more adversely affect the higher quality, higher priced tobaccos, such as those exported by the United States, than other tobaccos because of the greater increases in duty charges on the high-quality tobaccos.

Tariff preferences--such as those in effect among British Commonwealth areas, between France and its overseas areas, and between Portugal and its overseas areas--also cut exports of U. S. tobaccos and offer very great incentives to expanding production in the areas whose tobaccos enjoy such preferential treatment.

The United Kingdom still does not permit over a specified percentage of each company's total imports of tobacco to be purchased from the dollar area. This system is retained to encourage imports from the British Commonwealth. From the standpoint of its balance of payments situation, the United Kingdom could justify importing from the dollar area.

The Philippine Government has regulations which virtually prohibit imports of tobacco; they can be brought in only if the Philippine Virginia Tobacco Administration (dominated by tobacco producers) approves. This is a market to which the United States formerly supplied practically all of the cigarette tobacco imports.

Portugal has a preferential tariff and a provision that at least a specified percentage of imports will be from Portuguese overseas areas.

Germany has a mixing regulation requiring that a specified percentage of domestic leaf be used in certain products.

Australia has a special preferential tariff on Rhodesian tobacco and a regulation which requires that ever-increasing percentages of domestic tobacco be used in order to qualify for reduced import duty rates on the foreign tobacco required for blending. This adversely affects U. S. tobacco as practically all other imports are protected under a preferential tariff.

A large amount of U. S. tobacco is exported in the form of cigarettes. Since 1957 some 53 countries and areas have increased sharply their import duties on cigarettes. In most of these the United States has been the largest supplier.

Venezuela, the largest importer of U. S. cigarettes (about 6.25 million pounds annually), has recently reduced imports, under a system which will permit no imports of cigarettes after March 1960.

Bilateral Trade Agreements

Many of the large tobacco-producing countries export much of their tobacco under bilateral trade arrangements or agreements. Turkey, for example, exports 50 percent (70 percent excluding exports to the United States) of its tobacco under such agreements and Greece, about 75 to 80 percent. France, Italy, Germany, Austria, and Finland rely heavily on bilateral agreements in directing their imports to certain countries. The Federation of Rhodesia and Nyasaland exports about 65 percent of its flue-cured tobacco to the United Kingdom and Australia under preferential tariff and special purchase arrangements. Additional amounts of Rhodesian and Nyasaland tobaccos are exported to markets which extend preferential tariff treatment to production from other Commonwealth areas. Such agreements of course reduce exports of tobacco from the United States regardless of competitive quality or price.

Tobacco Monopolies

Tobacco monopolies control the tobacco production and trade of 19 Free World countries. Some of the monopolies are government type and some are the leased type. Some of the latter, such as in Sweden, interfere little in trade, but for others such as those in France and Italy, all decisions on tobacco production, imports, exports, manufacturing, and distribution of products are made by the state.

Monopolies are always a source of uncertainty to tobacco exporting countries. Government monopoly control means that monopolies can import what they want from where they want, control domestic production and advertising, and play an important role in the taxing and pricing operations, with only minimum consideration given the wishes of consumers. Countries in the Free World having monopoly control of tobacco include the following:

<u>Country</u>	<u>Type</u>	<u>Country</u>	<u>Type</u>
Austria.....	Government	Lebanon.....	Leased
Formosa.....	Government	Peru	Leased
France	Government	Portugal	Leased
Morocco	Leased	Spain.....	Leased ¹
Haiti	Leased	Sweden	Leased
Iran	Government	Syria.....	Government
Iraq	Government	Thailand	Government
Italy.....	Government	Tunisia.....	Government
Japan	Government	Turkey	Government
Korea.....	Government		

¹This is legally a leased monopoly but, because of the government control over all operating policies, the actual effect is more nearly like that of a straight government monopoly.

The European Economic Community (Common Market) recently organized is the biggest single movement to affect world trade including that in U. S. tobacco. According to current provisions, the tariff wall is to be raised substantially by gradually increasing the external rate to 30 percent ad valorem on tobacco imported from the United States and other outside areas. The ad valorem nature of the duty would have a particularly heavy impact on the higher quality, higher priced tobaccos, such as those from the United States, Canada, and Indonesia, and offer great advantage to tobacco produced in France, Italy, Germany, and their overseas territories and later to that of Greece and Turkey, which are expected to be associated with the EEC.

Greek and Turkish tobaccos are already competing with U. S. light cigarette leaf tobacco in Western Europe. Duty-free access to the Common Market countries for tobacco from these two areas would of course greatly enhance the competitive position of these countries, although demand in Western Europe is decreasing for cigarettes containing a higher percentage of oriental. Government and advertising programs might be used to try to reverse this trend.

Export Aids Used by Competing Countries

Some tobacco exporting countries use additional devices to assist in marketing their tobacco abroad.

The Turkish Government pays an export premium to tobacco merchants, and Colombia gives its tobacco exporters a bonus in the form of an exchange differential.

The Union of South Africa has an export subsidy for tobacco, which in recent years has amounted to about 40 percent of the actual export price.

Italy has a special trading arrangement whereby the Italians send leaf to Switzerland and Swiss cigarette manufacturers send Swiss cigarettes to Italy.

Brazil has a differential exchange rate designed to encourage tobacco exports, but this appears to be of only limited effectiveness.

The preferential tariff system permits the Federation of Rhodesia and Nyasaland and certain other Commonwealth producers to export to the nonprotected markets at less than the cost of production.

Some other countries are reported to be assisting tobacco exports by export exchange bonuses and other means.

BUILDING WORLD MARKETS

Market Surveys and Analysis

In the past year, tobacco marketing specialists have been in Europe and the Middle and Far East aggressively promoting exports of U. S. tobacco. In order to maintain and expand present markets and, if possible, develop new ones, these specialists, with the aid of the U. S. agricultural attaches, conferred with key government and trade officials in the countries visited.

In the latter part of 1959, one specialist assessed the marketing possibilities and problems for U. S. tobacco in the leading markets of Western Europe. The specialist found that European importers were concerned with the prices of the U. S. grades of tobacco which normally reach export markets. In addition, he investigated the effects of trade barriers in various countries and of the effect the European Common Market may have on future U. S. exports of tobacco.

In the fall of 1959, two market specialists studied possibilities for expanding U. S. exports in 15 Middle and Far Eastern countries. They were encouraged by the increased consumption of U. S. tobacco in various countries they visited, especially Thailand and Japan, where tobacco market development projects are in progress.

The U. S. tobacco trade and government officials concerned with the U. S. tobacco program were informed of these findings through weekly news items, circulars, and bulletins.

Market Information and Services

The weekly publication, Foreign Crops and Markets, contained over 250 spot news items on tobacco during fiscal year 1959. Also during this period, 6 market circulars were published on the subject, as well as semiannual statistical circulars, which review shipments and status of tobacco programs involved in Title I of Public Law 480. Reprints of this information in leading domestic and foreign trade publications provide a means for both national and international distribution. In fiscal 1959 there were over 1,000 such reprints.

Tobacco specialists also contributed several reports which appeared as lead articles in major U. S. tobacco trade journals. These articles analyzed the world tobacco situation, with emphasis on problems facing exports, and suggested possible solutions.

Aside from the foreign marketing studies abroad, specialists visited the domestic tobacco marketing and producing areas in order to gain first-hand knowledge of the new crops and determine what effect the domestic situation may have in future marketing of the export grades. While in these areas specialists were often called upon to attend trade meetings and conferences in order to bring interested producers and exporters up to date on the tobacco situation throughout the world. They participated in these meetings as members of seminar discussion groups and on several occasions as key speaker.

Overcoming Dollar Shortages

Barter

During fiscal 1959 a total of 1,460,000 pounds of U. S. tobacco were exported under provisions of the CCC barter program. The Belgian Congo received 395,000 pounds and the United Kingdom, the balance. The function of this program is to allow commodities pledged to CCC under price support programs to be exchanged for strategic materials through private barter arrangements.

Several legislative acts, including Title III of Public Law 480, have provided the authority for CCC to aid in facilitating these barter transactions. The program has had several modifications designed to expedite and increase barter transactions. Periodic USDA releases provide the tobacco trade with the necessary information as to any changes or modifications in the barter program.

Local Currency Sales - Title I, Public Law 480

As of June 30, 1959, sales agreements under Title I, Public Law 480 provided for approximately \$181 million worth, or about 247 million pounds, of U. S. tobacco since the inception of this program in 1954-55. This total includes sales through 54 agreements with 23 countries.

The purpose of this program is to dispose of surplus agricultural commodities through normal commercial channels without interference with or displacement of traditional markets and sales.

These U. S. agricultural products are sold for foreign currencies under agreements with friendly foreign governments which cannot purchase their requirements because of foreign exchange problems. However, dollar sales are emphasized, whereby tobacco sold under this program is to provide for increased usings of U. S. leaf or an increase in the stock level which would not have been possible in the absence of a P.L. 480 program.

Public Law 480 has been extended by Congress for an additional 2 years from December 31, 1959. Additional funds totaling \$3.0 billion have also been authorized. Additional agreements providing for the sale of tobacco are expected to be signed during the extension period.

TABLE 5.--Tobacco sales agreements under Title I, Public Law 480 as of June 30, 1959

Country	Estimated quantity	Value
	<i>Million pounds</i>	<i>Million dollars</i>
Austria.....	7.4	4.8
Brazil.....	.3	.6
Burma.....	3.6	2.8
Chile.....	.3	.3
China (Taiwan).....	7.1	6.0
Colombia.....	.5	.6
Ecuador.....	.4	.7
Finland.....	20.1	12.3
France.....	16.5	10.0
Iceland.....	1.2	1.3
India.....	6.1	6.0
Indonesia.....	24.4	14.3
Israel.....	1.1	.7
Italy.....	23.1	17.9
Japan.....	9.8	7.8
Korea.....	8.5	6.6
Pakistan.....	5.8	4.8
Spain.....	27.8	20.3
Thailand.....	5.4	3.9
United Arab Republic.....	10.6	9.0
United Kingdom.....	52.9	38.0
Uruguay.....	6.8	6.1
Viet Nam.....	7.7	5.8
Total.....	247.4	180.6

TABLE 6.--U. S. exports of unmanufactured tobacco under Public Law 480, by type and country of destination, from the beginning of the program, January 1955, through June 30, 1959

[Declared weight]

Country	Flue-cured		Burley		Dark-fired Ky.-Tenn.		Dark-fired Virginia		Maryland		Dark Air-cured		Cigar		Total	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Austria.....	1,000 pounds 4,686	1,000 dollars 2,858	1,000 pounds 1,678	1,000 dollars 900	1,000 pounds 229	1,000 dollars 185	1,000 pounds 547	1,000 dollars 476	1,000 pounds --	1,000 dollars --	1,000 pounds --	1,000 dollars --	1,000 pounds 284	1,000 dollars 378	1,000 pounds 7,424	1,000 dollars 4,797
Brazil.....	--	--	--	--	--	--	--	--	--	--	--	--	248	557	2,491	1,738
Burma.....	2,482	1,730	9	--	--	--	--	--	--	--	--	--	--	--	--	--
Chile.....	271	212	52	37	1	1	--	--	--	--	--	--	--	--	324	250
China, (Taiwan)	4,000	3,465	--	--	--	--	--	--	--	--	--	--	--	--	4,000	3,465
Colombia ¹	304	342	187	211	--	--	--	--	15	17	--	--	--	--	506	570
Ecuador.....	272	211	148	118	--	--	--	--	--	--	--	--	--	--	420	329
Finland.....	13,628	7,348	2,680	1,620	499	147	104	46	--	--	461	220	--	--	17,372	9,381
France.....	3,222	2,650	635	519	8,522	4,243	157	124	--	--	--	--	--	--	12,536	7,536
Iceland ¹	531	515	350	339	162	29	--	--	23	24	--	--	--	--	1,066	907
India.....	6,010	5,857	8	7	--	--	26	20	--	--	55	20	9	21	6,053	5,905
Indonesia.....	23,097	13,979	48	17	878	538	--	--	--	--	--	--	--	--	24,078	14,554
Israel.....	1,094	738	--	--	--	--	--	--	1	1	--	--	5	5	1,100	744
Italy.....	11,825	9,278	6,099	5,107	3,750	2,896	--	--	--	--	--	--	--	--	21,674	17,281
Japan.....	8,055	6,662	1,736	1,165	--	--	--	--	--	--	--	--	--	--	9,791	7,827
Korea.....	8,237	6,506	249	223	--	--	--	--	--	--	--	--	--	--	8,486	6,729
Pakistan.....	5,779	4,818	--	--	--	--	--	--	--	--	--	--	--	--	5,779	4,818
Spain.....	9,944	8,305	6,345	5,334	968	258	--	--	2,110	964	15	4	73	121	19,455	14,986
Thailand (Siam)	5,441	4,047	--	--	--	--	--	--	--	--	--	--	--	--	5,441	4,047
United Kingdom.	52,905	38,074	--	--	--	--	--	--	--	--	--	--	--	--	52,905	38,074
Uruguay.....	1,590	1,477	293	276	--	--	--	--	1	1	--	--	--	--	1,884	1,754
Vietnam.....	6,223	4,585	412	376	367	133	--	--	717	278	--	--	1,208	476	8,927	5,848
Total.....	169,596	123,657	20,929	16,257	15,376	8,430	834	666	2,867	1,285	531	244	1,827	1,558	211,960	152,097

¹ The value of leaf content of tobacco products authorized to be sold to these countries was financed under Public Law 480.

Foreign Aid Financing

Another program which has aided in increasing U. S. exports in the past few years has been Section 402 of the Mutual Security Act. In fiscal year 1956 tobacco became eligible for sale under this program as part of triangular trade transactions; during fiscal year 1959 approximately \$2.5 million worth of U. S. tobacco was provided for. Prior to this, about \$3.3 million worth was exported under Section 402 to Austria, Italy, and France. Through these triangular transactions, the United States increases its exports of tobacco, while the importing country supplies manufactured goods to under-developed countries which are recipients under the U. S. aid program.

Lessening Foreign Trade Barriers

Trade barriers imposed by tobacco importing countries continue to plague the expansion of U. S. tobacco exports. Because of these barriers, U. S. exporters find it increasingly difficult to sell a competitive product, and though many have been in effect for years, their number and restrictive effect continue to increase.

Removal or lessening of these restrictions continues to be a primary objective of the U. S. Government and the tobacco export trade. A relaxation would in all probability cause a marked increase in tobacco exports.

USDA's comprehensive analyses of the restrictions on U. S. tobacco provide the necessary information needed by the U. S. delegates attending GATT negotiations. From these studies, arguments on behalf of removal of these restrictions are presented.

Also, personal contacts made by U. S. specialists while on market development projects abroad have enabled them to discuss any pertinent restrictions which may be in effect at the time of their visit.

Agricultural attachés also continue to work toward lowering trade barriers. In 1956 Burma increased the import duty on unmanufactured tobacco to 200 percent ad valorem--an excessively high duty, which adversely affected sales of U. S. leaf even though it was available under the Title I program. The U. S. agricultural attaché began to make representations to appropriate Burmese officials in an effort to get the duty lowered to a realistic level, and on August 1, 1959, it was reduced to 100 percent ad valorem. Since then, sales of U. S. leaf have increased.

Market Development Activities

Part of the foreign currencies derived from export sales under Title I of Public Law 480 is earmarked for developing foreign markets. These projects, designed to help increase the consumption of U. S. tobacco, are carried out cooperatively by the Department of Agriculture, the U. S. tobacco trade, and the appropriate foreign tobacco trade group.



These tobacco products of other lands contain U.S. leaf. Posters like these advertising French and Japanese products are cooperatively developed by USDA and U.S. tobacco trade groups.



Uruguayan tobacco officials inspect U.S. leaf on auction floor during 1959 marketing season.



Visitors at Poland's 1959 Poznan Trade Fair enjoyed American-type filter cigarettes, produced on the spot at the United States exhibit.

To date, some 26 projects have been undertaken in foreign countries. Examples of accomplishments in this field of activity are as follows:

1. Market research studies have been undertaken in foreign countries, to get information on the potential market for U. S. tobacco and tobacco products. Some of the studies are used as guides for improving work being conducted under promotion projects.

2. In Japan, Thailand, France, and Burma, projects have been undertaken to help advertise their tobacco products which contain U. S. tobacco. Examples of progress under these projects include:

- (a) Sales of "Peace", a Japanese cigarette which contains 40 percent U. S. leaf, have increased from 7.8 billion pieces in 1956 to 11.8 billion pieces in 1958. At the same time, total consumption of U. S. leaf in Japan has increased from 7.2 million pounds to 9.3 million.

- (b) A project for the promotion of France's "Royale" cigarettes (60 percent U. S. leaf) has helped increase sales of this brand from 11.5 million cigarettes in 1957 to 43.5 million pieces in 1958. Notwithstanding a price rise for French cigarettes in early 1959, Royales continued to regain its share of the market after a downward

trend in consumption of all French cigarettes. While total cigarette sales declined 13.3 percent, the sales of Royales rose 18.6 percent during this period.

(c) In Thailand, the tobacco monopoly is now producing a brand, "Gold City", which contains 100 percent U. S. leaf. At the present time the consumption of U. S. leaf is approximately 10 million pounds annually as compared to 8 million pounds when market development work started 3 years ago.

(d) The project in Burma has been in operation for only a short time. However, it is already evident that this project in conjunction with the recent reduction in the tariff rates will result in increased exports of tobacco to Burma.

3. Projects have been undertaken to provide for the visit of key tobacco officials from several countries. This affords an excellent means of acquainting these visitors with methods of manufacturing, processing, and distribution of U. S. leaf. Several new brands of American-type cigarettes have been introduced in some of these countries immediately following such visits.

Private Trade Activities

The following four major tobacco trade groups continue to cooperate with the USDA in promotional activities with the common goal of increasing exports of U. S. tobacco:

Tobacco Associates, Inc.
Burley and Dark Leaf Tobacco Export Association, Inc.
Leaf Tobacco Exporters Association, Inc.
National Cigar Leaf Tobacco Association, Inc.

Aside from their activities with the market development projects, these groups collect and disseminate information to the members of their associations and encourage legislation which would be favorable to expanding U. S. exports of tobacco.

International Trade Fairs

In order to emphasize the importance of using U. S. leaf to make a higher quality product, FAS and the U. S. tobacco trade have attempted to reach the foreign consumer through the media of the international trade fair.

In June of 1959 under the joint sponsorship of the U. S. tobacco trade groups, USDA, U. S. Department of Commerce, and the Polish Tobacco Monopoly, a modern cigarette manufacturing and packaging operation was exhibited in the American Pavilion at the Poznan International Trade Fair. This exhibit, which was seen by an estimated 350,000 visitors, was one of the highlights of the fair. Sample cigarettes were handed out to the visitors. It was the first time many of the Polish people had ever smoked an American-type cigarette and they were highly pleased with them.

FAS also indirectly participated in several promotional activities in Europe by arranging for a supply of sample packages of U. S. cigarettes to be used for sampling purposes at these gatherings.

RECENT PUBLICATIONS

U. S. Tobacco Exports Down Slightly in 1958. FT-1-59, March 1959. A 14-page summary, mainly statistical, containing complete data on U. S. leaf tobacco exports in 1958, with comparisons.

U. S. Imports of Unmanufactured Tobacco Set Record in 1958. FT-3-59, April 1959. A 3-page summary of U. S. imports, by country of origin and kind of tobacco, in 1958 with comparisons.

Free World Tobacco Exports Drop a Little in 1958. FT-4-59, May 1959. An 8-page summary of the tobacco export and import trade of the Free World, for 1958, with comparisons.

Sharp Rise in World Cigarette Output Continues. FT-7-59, October 1959. A 5-page summary of cigarette production, by country, for 1958, with comparisons.

About 247 Million Pounds of Tobacco Programed Under Title I, P.L. 480. FT 8-59, November 1959. A 4-page summary of tobacco sales under P.L. 480 as of June 30, 1959.

The Canadian Tobacco Situation. FT-9-59, November 1959. A 3-page summary of the current tobacco situation in Canada, with particular emphasis on leaf production.

World Tobacco Production. FT-10-59, December 1959. A summary of tobacco production, by kinds and producing countries, for 1959, with comparisons.

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